

## NEW APPLICATION

## BEFORE THE ARIZONA CORPORATION COMMISSION

**COMMISSIONERS**

LEA MARQUEZ PETERSON - CHAIRWOMAN  
SANDRA D. KENNEDY  
JUSTIN OLSON  
ANNA TOVAR  
JIM O' CONNOR

IN THE MATTER OF THE APPLICATION OF ) DOCKET NO. G-04202A-22-  
UNS GAS, INC. FOR APPROVAL OF A )  
TEMPORARY PURCHASED GAS ADJUSTOR )  
SURCHARGE ) **APPLICATION**

*Expedited Approval Requested*

UNS Gas, Inc. ("UNS Gas" or "Company"), through undersigned counsel, hereby request that the Arizona Corporation Commission ("Commission") approve a temporary surcharge to its Purchased Gas Adjustor ("PGA") rate in order to reduce the current under recovered PGA bank balance related to the unprecedented changes in natural gas commodity pricing that have occurred over the last 24-month period.

**Background**

UNS Gas delivers natural gas to more than 165,000 customers in Santa Cruz, Mohave, Yavapai, Coconino and Navajo counties through 4,750 miles of distribution pipelines. All natural gas provided to customers is procured from wholesale providers at market prices that are subject to significant volatility. To help insulate customers from this volatility, UNS Gas employs a 36-month rolling procurement process to hedge up to 70 percent of its weather normalized forecasted gas demand for the March through November time period and 80 percent for the December through February time period. The Commission-approved UNS Gas PGA (UNS Gas' Rider RR-1 Purchased Gas Adjustment) allows recovery of gas and transportation costs incurred to provide service to retail customers, as well as the cost of contracts used for hedging system gas costs.

1           **Overview of UNS Gas PGA**

2           In Decision No. 70011 (November 27, 2007), the Commission approved an updated  
3 structure for UNS Gas's PGA, which includes: (i) a 12-month rolling average PGA rate, adjusted  
4 monthly; (ii) a band for PGA rate adjustments of +/- \$.15 per therm on a month-to-month basis; and  
5 (iii) a trigger for a refund when the PGA bank balance reflects an over-collection of \$10 million or  
6 more. The PGA also provides the Company with the opportunity to request a surcharge if the bank  
7 balance reflects an under-collection.<sup>1</sup>

8           In Decision No. 75818, the following additional requirements regarding the PGA bank  
9 balance were adopted:

10                   "...However, we will require UNS Gas to provide written notice to Staff  
11 within 30 days after the PGA bank balance becomes over-collected by \$5 million  
12 and to provide the following information with that notice: (i) current market price  
13 of natural gas, (ii) forecast of natural gas prices and related estimate of whether the  
14 bank balance will be over-collected by \$10 million within the following 12 month  
15 period, and (iii) whether UNS Gas intends to propose a surcredit prior to the bank  
16 balance being over-collected by \$10 million."

17           Pursuant to these requirements, UNS Gas has twice requested credits to customers but has  
18 not sought a surcharge related to an under-collected bank balance. In November 2016, the  
19 Commission approved a request by UNS Gas to return over-collected PGA costs to customers in  
20 Decision No. 75818 (November 22, 2016).<sup>2</sup> In October 2018, the Commission approved a request  
21 by UNS Gas to return over-collected PGA costs to customers in Decision No. 76916 (October 19,  
22 2018).<sup>3</sup>

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<sup>1</sup> <https://docket.images.azcc.gov/0000136865.pdf?i=1651684996425> (at page 17 of PDF)

26           <sup>2</sup> <https://docket.images.azcc.gov/0000174977.pdf?i=1650564241161> This credit of \$0.04/therm resulted in  
an average residential monthly bill decrease of \$2.88 over six winter months.

27           <sup>3</sup> <https://docket.images.azcc.gov/0000192994.pdf?i=1650564047078> This credit of \$0.1023/therm resulted  
in an average residential monthly bill decrease of \$7.36 over six winter months.

### **Current PGA Bank Balance**

As of March 31, 2022, the UNS Gas PGA bank balance was under-collected by \$7.5 million due to several significant factors. First, the price of wholesale natural gas from the Permian and San Juan Basins has been subject to extreme market volatility and UNS Gas is reliant on those markets to provide natural gas to its customers. For example, San Juan Basin natural gas prices have increased by an average of 218% over the past 2 years. Second, extreme weather events such as record-setting heat waves in August 2020 and June 2021 and winter storm Uri in Texas during February 2021 led to record high natural gas prices, adding additional unforeseen costs. As a result of these market factors, as well as the functionality of the UNS Gas PGA that limits monthly PGA rate adjustments, the PGA bank balance reached the current under-collected amount of \$7.5 million, and that under-collected amount will continue to increase based on current forward market conditions.

### **Proposed PGA Surcharge Options**

UNS Gas is proposing two PGA surcharge options that would allow UNS Gas timely recovery of the current under-collected PGA bank balance. The table below shows the bill impacts of implementing a PGA surcharge under the two options.

	<b>Option 1</b>	<b>Option 2</b>
Proposed Surcharge Rate, \$/therm	\$0.06225	\$0.04150
Average Residential Bill Impact, \$/Month	\$2.71	\$1.81
Surcharge Calculation Period	12 months	18 months

Note: Residential Customer Usage equals 43 therms per month

The Company will terminate the temporary PGA surcharge and notify Commission Staff when the PGA bank balance reaches zero.

1 The Company believes that the proposed surcharge options will provide customers  
2 gradualism while ensuring timely recovery of the PGA bank balance. Forward natural gas prices  
3 remain high and may be prone to periods of unforeseen future volatility. If no surcharge is approved,  
4 the Company estimates that the PGA bank-balance would exceed \$18 million by February of 2023,  
5 resulting in significant financial risk to UNS Gas, and potentially leading to higher financing and  
6 credit exposure costs that would need to be included in future rate recovery.

7 In support of this Application, UNS Gas is providing one exhibit:

- 8 • Exhibit A is a graph showing the San Juan Basin average monthly day-ahead  
9 natural gas prices from May 2020 through April 2022.

10 UNS Gas requests review and approval of this application in time to allow surcharge  
11 collection to begin July 1, 2022. Implementing a PGA surcharge is necessary in order to allow UNS  
12 Gas to recover the costs incurred to ensure the delivery of safe and reliable service to its customers.

13 WHEREFORE, UNS Gas respectfully requests that the Commission issue an order  
14 approving a surcharge to its PGA rate subject to immediate termination upon the PGA bank balance  
15 reaching zero.

16 RESPECTFULLY SUBMITTED this 13th day of May, 2022.

17 UNS GAS, INC.

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eFiled this 13th day of May, 2022 with:

Docket Control  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

By s/Jennifer Thomes



# Exhibit A

San Juan Natural Gas Index  
Actual

